

Secure Retirement

For Iowa's Public Employees



Working Today for Your Tomorrow

Presented to the Legislative Fiscal Committee

Donna M. Mueller, CEO

December 13, 2013

Our Mission & Vision



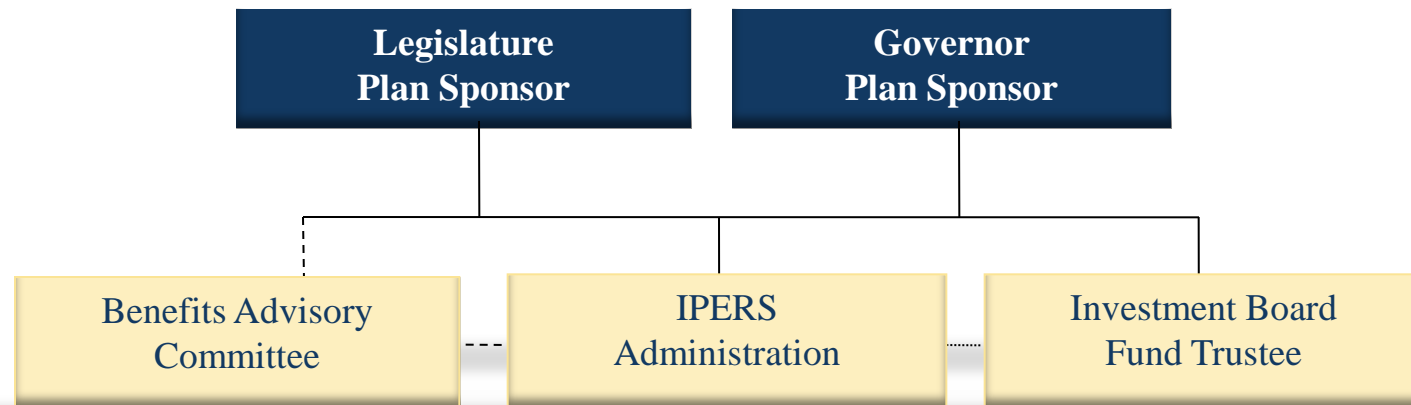
MISSION

Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

VISION

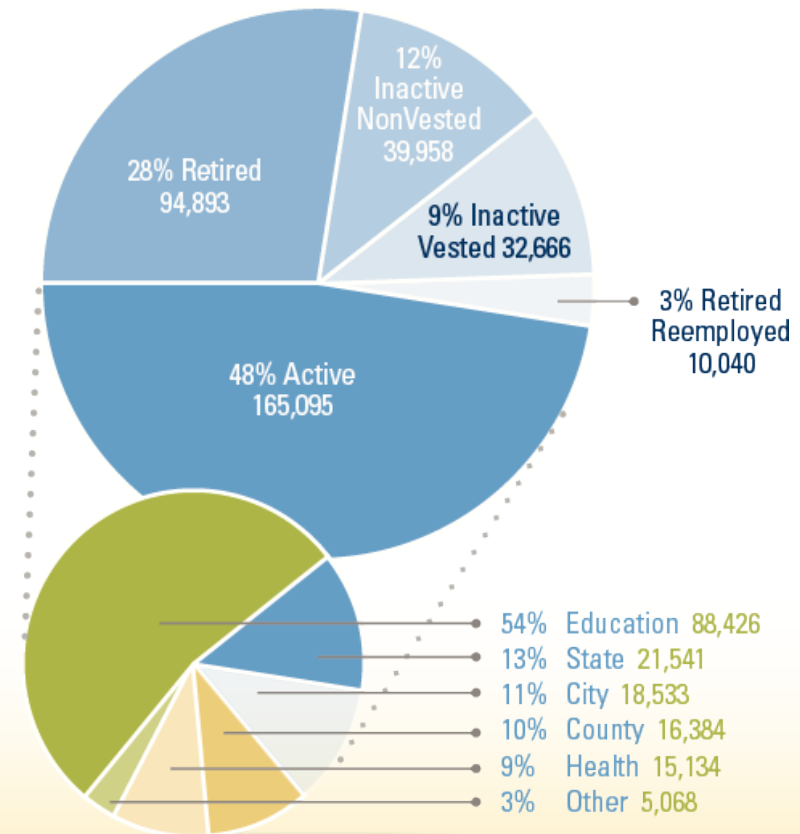
IPERS is a sustainable and affordable retirement plan that is valued by all Iowans and provides members with secure income, supports self-sufficiency in retirement, and contributes to local economies.

Governance



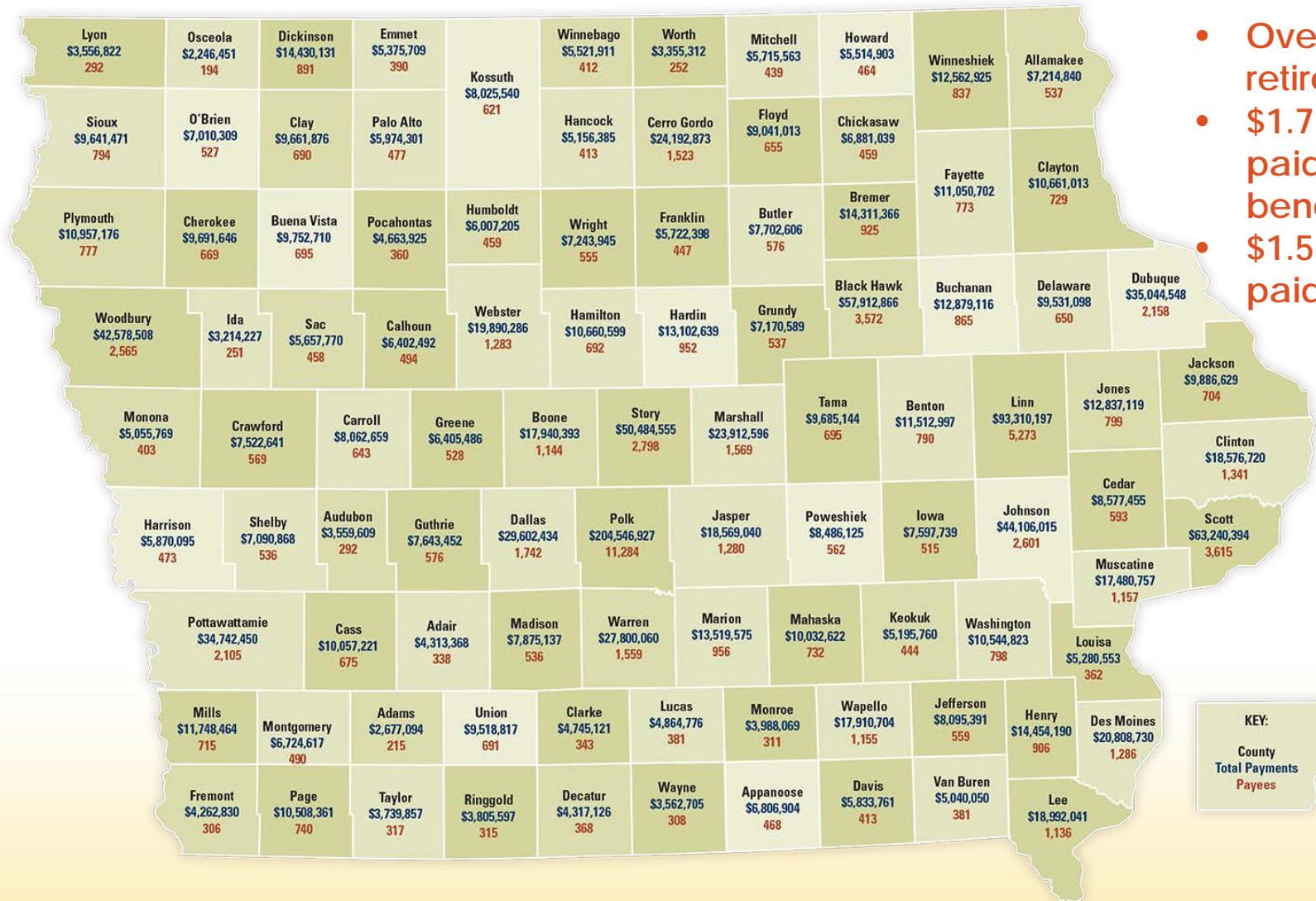
IPERS is...

- The largest public retirement system in Iowa
 - 2,100 employers
 - Over 340,000 members
 - Regular members
 - Sheriffs and deputies
 - Protection occupations



Benefit Payments By County

Paid in FY2013

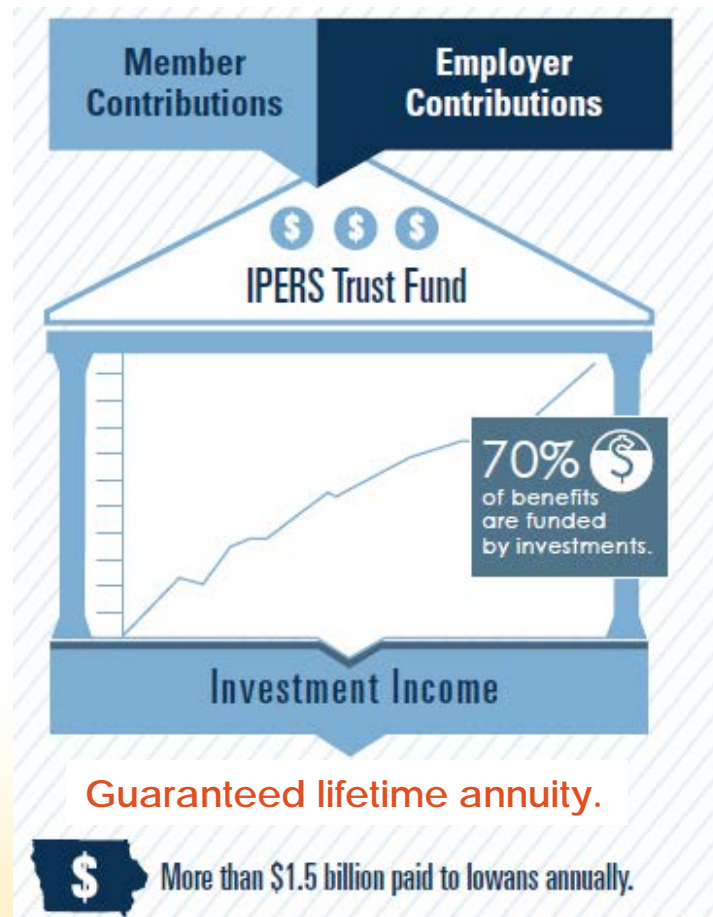


- Over 104,000 retirees
- \$1.7 billion paid in benefits
- \$1.5 billion paid to lowans

KEY:
County
Total Payments
Payees

Prefund – Not Pay-as-you-go

Contributions + Investments = Benefits + Expenses



Investment Performance

For periods ended June 30

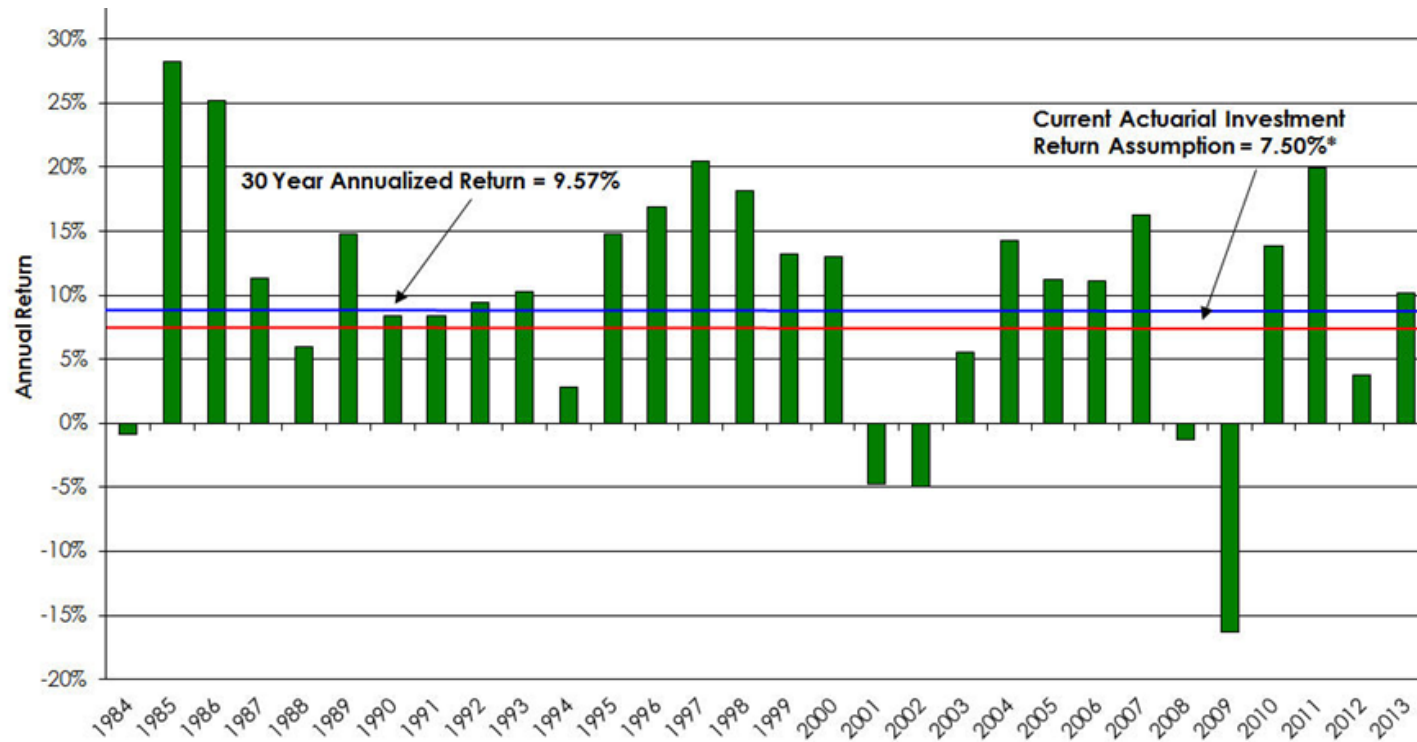
	FY2013	10-Year	20-Year	30-Year
IPERS Portfolio[*]	10.12%	7.78%	8.47%	9.57%
Policy Benchmark[†]	10.64%	8.07%	8.02%	9.15%
Large Public Fund Median[‡]	12.61%	7.23%	7.98%	9.42%

^{*}Net of fees.

[†]A benchmark composed of market indices with weightings reflective of IPERS' asset allocation targets.

[‡] Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.

Investment Returns



Annualized Returns

1-Year Return	10.12%
3-Year Return	11.06%
5-Year Return	5.48%
10-Year Return	7.78%
15-Year Return	6.55%
20-Year Return	8.47%
25-Year Return	8.82%
30-Year Return	9.57%

For periods ended June 30, 2013

*Actuarial investment return assumption:

1953 – 1993: 6.50%

1994 – 1995: 6.75%

1996 – present: 7.50%

Trust Fund Value



The IPERS Trust Fund market value
as of 6/30/13
is **\$24.8 billion** up from
\$23.2 billion as of 6/30/12.

Actuarial Valuations



- Annual snapshot as of June 30
 - Evaluates funded status
 - Evaluates asset and liability measures
 - Determines annual required contribution rates

Key Indicators



IPERS is a strong pension system

- Funded ratio of 81 %
- Decrease of \$129 million in UAL
- UAL is amortized at 27 years

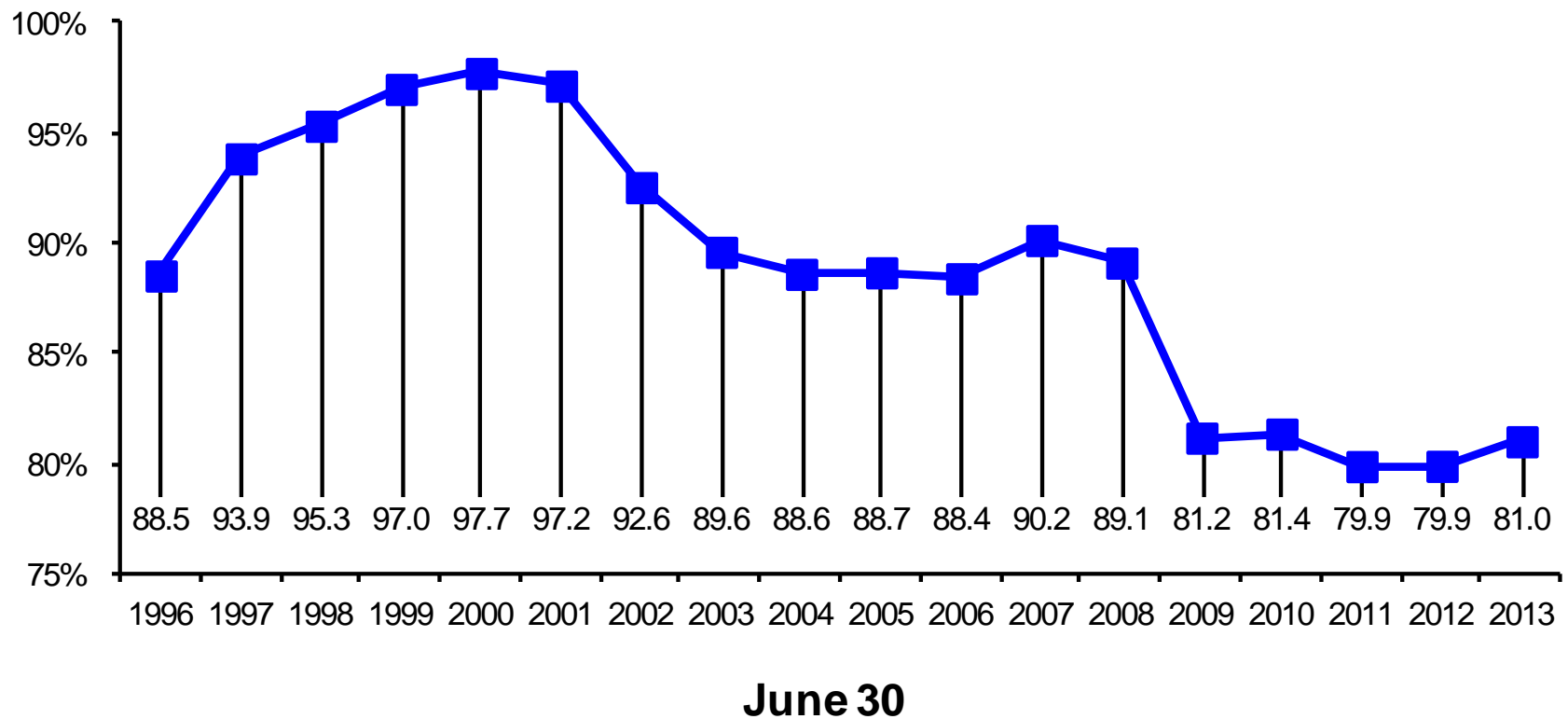
Positive gains from investments

- FY2013 investment performance of 10.12%
- Beats the 7.5% actuarial assumed investment return

Funded Ratio



Funded Ratio



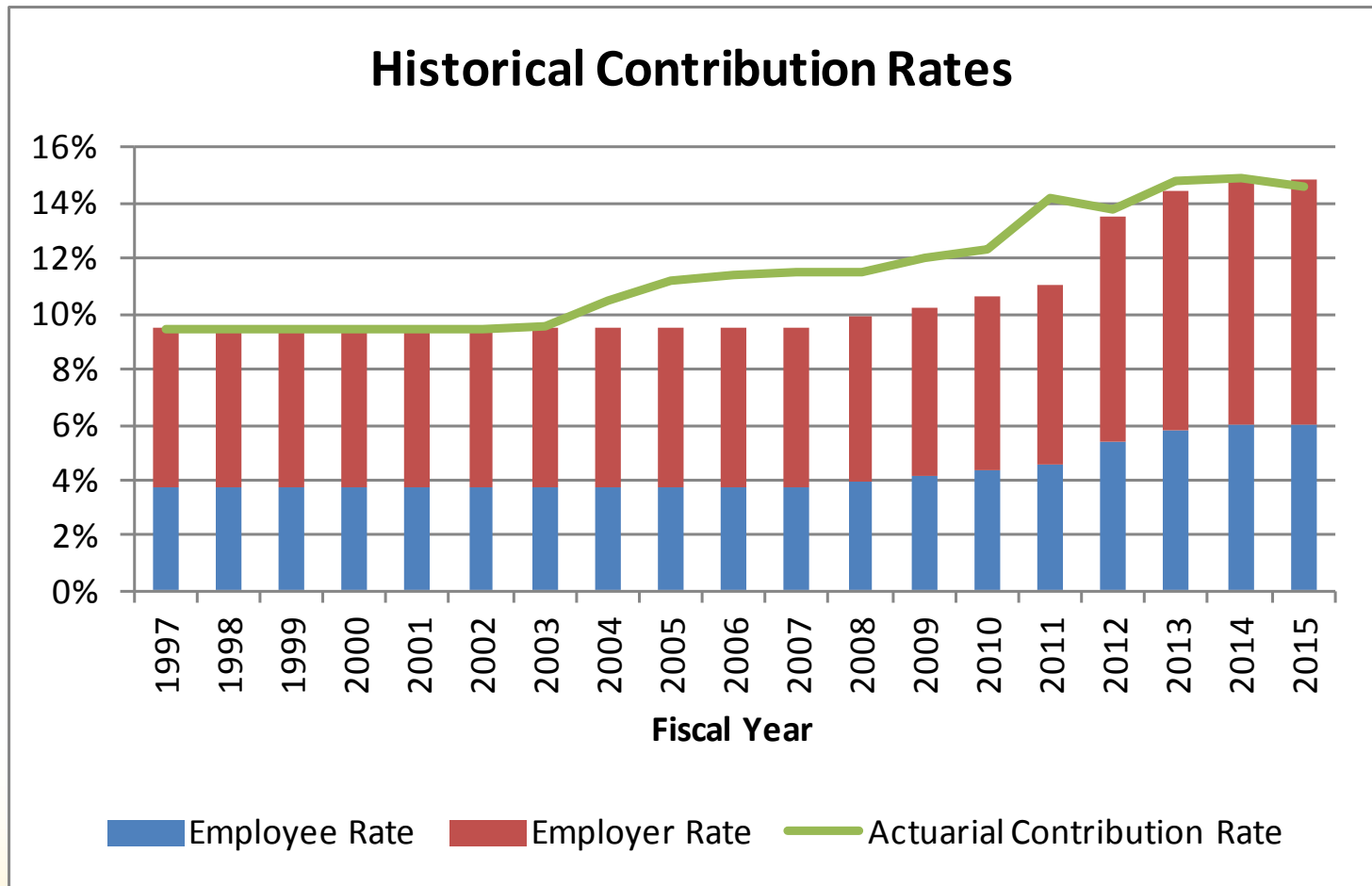
Funded Ratio By Group



	Regular Members	Sheriffs & Deputies	Protection Occupations	Total
Actuarial Liability	\$28,799	\$533	\$1,166	\$30,498
Actuarial Value of Assets	<u>23,100</u>	<u>483</u>	<u>1,129</u>	24,711
Unfunded Actuarial Liability	\$5,699	\$50	\$37	\$5,787
Funded Ratio	80.2%	90.5%	96.8%	81.0%

\$ Millions

Contribution Rates vs. Required



Regular Members

Contribution Rates



FY2015

Membership Class	Member Share	Employer Share	Total
Regular	5.95%	8.93%	14.88%
Sheriffs and deputies	9.88%	9.88%	19.76%
Protection occupations	6.76%	10.14%	16.90%

– NO RATE INCREASE –
FY2015 rates remain the same as FY2014.

UAL Calculation



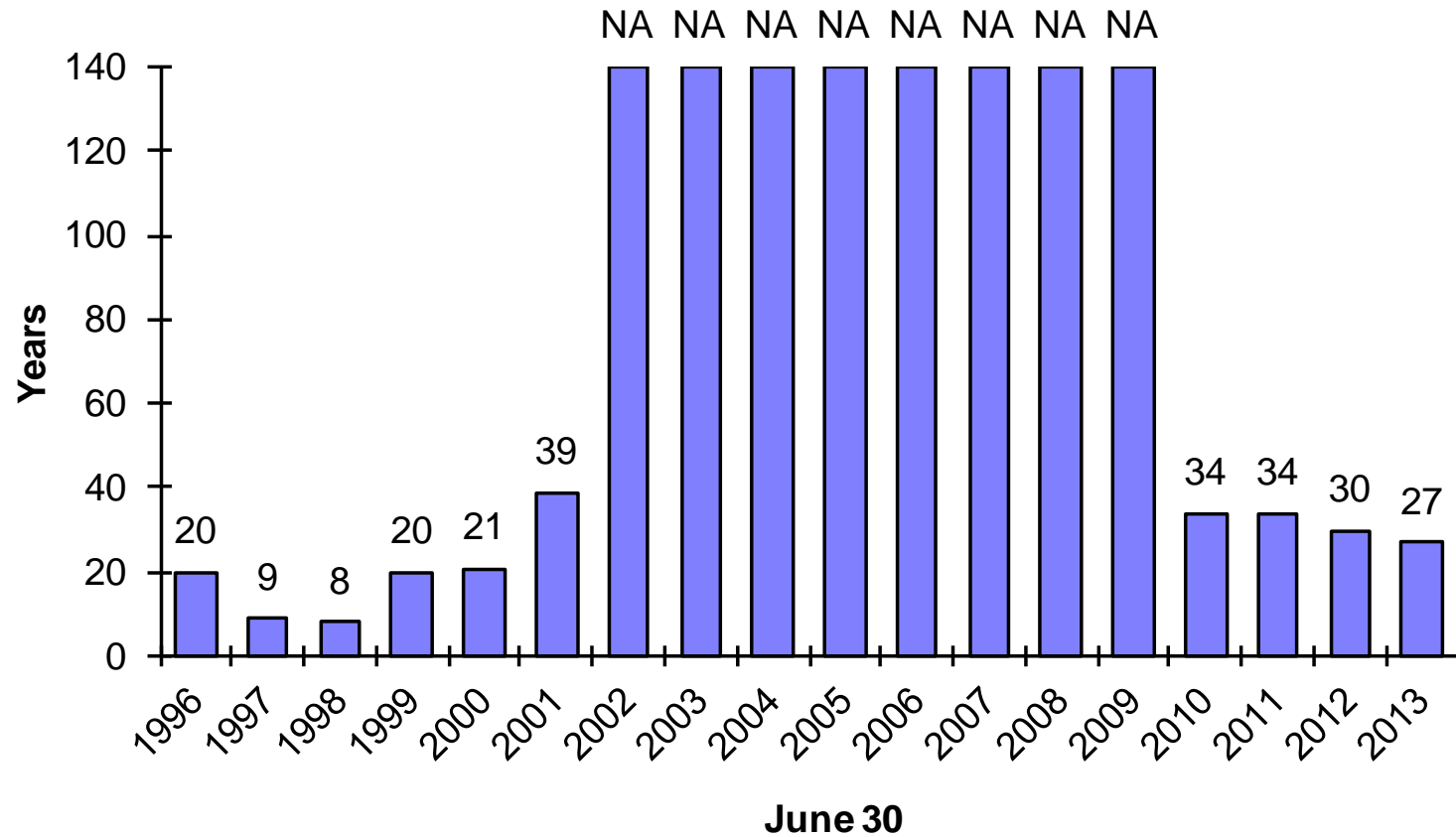
Unfunded Actuarial Liability

As of June 30, 2012	\$ 5,916
– Contributions below actuarial rate	21
– Expected increase from amortization	115
– Investment experience	(15)
– Liability experience	(250)*
As of June 30, 2013	\$ 5,787

\$ Millions

*Largely due to salary increases that were lower than anticipated by the actuarial assumption.

Amortization Period



What Is GASB?



GASB stands for...

Governmental

Accounting

Standards

Board



To learn more about GASB, go to the GASB website at www.gasb.org.

New Accounting Standards



- **Statement No. 67** applies to the **SYSTEM**
 - IPERS' fiscal year 2014
- **Statement No. 68** applies to **EMPLOYERS** who utilize GAAP reporting
 - The fiscal year that begins after 6/15/2014

GASB Statements 67 & 68



What the new standards do:

- Breaks the link between actuarial funding and financial accounting

Currently...

- The employer's balance sheet and income statement reports on payment of contractually required contributions

The new standards...

- Require employers to report a share of plan's net pension liability (similar to unfunded actuarial liability) on the their balance sheet

Breaks the Funding Link



- **Currently** financial reports examine funding progress, disclosure of annually required contribution and percent paid.
- Funding measures still valid and essential.
- The new accounting standards report a dollar value of **pension obligations** in financial reports.
- *Accounting and funding are no longer linked.*

Accounting Terms



Total pension liability (TPL): actuarial present value of projected benefit payments attributed to past periods of employee service.

Net pension liability (NPL): TPL minus market value of assets.

Pension expense (PE): the difference between the NPL from the prior fiscal year to the current fiscal year, with some adjustments.

Total Pension Liability



What is total pension liability?

Similar to actuarial accrued liability in the valuation, but may use a different discount rate.

What will IPERS do with this number?

It will be disclosed in IPERS' CAFR and Required Supplementary Information (RSI).

Discount Rate



Percentage rate used to calculate present value of future cash flow

- **Actuarial assumed investment return**
 - Set by the Investment Board, is currently used for both accounting and funding purposes.
 - Can continue to be used for accounting purposes when projected net assets ARE sufficient to cover projected benefit payments.
- **Blended rate**
 - Used when the projected net assets are NOT sufficient to cover projected benefit payments.
 - A blend of the actuarial assumed investment return and a 20-year municipal bond index rate.

Net Pension Liability



What is net pension liability?

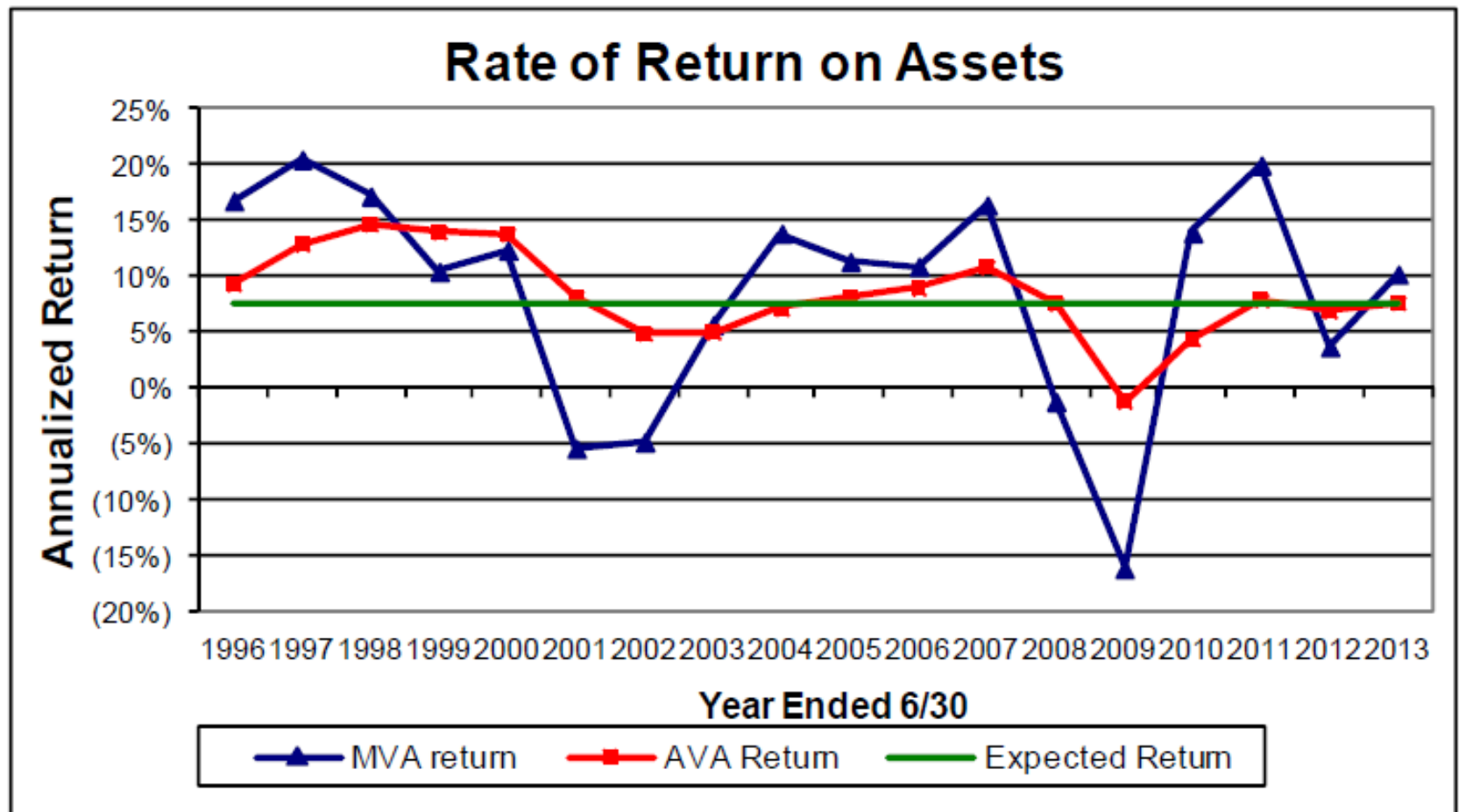
TPL minus market value of IPERS' assets = NPL
(Similar to UAL)

What will IPERS do with this number?

This will be apportioned among the employers and reported on their financial statements.

- Ratio of contributions to total contributions

Historical Asset Returns



Pension Expense



What is pension expense?

The difference in NPL from the previous year to the current year, with some adjustments the calculations will take into account.

What is done with this number?

This will be apportioned among the employers and reported on their financial statements.

Employers' Responsibilities



This is NEW and IMPORTANT:

- Employers will have to recognize their share of the **net pension liability**.
- And a new measure of the **pension expense** on their financial statements.

What This Means...



- A **pension liability** on the employer's financial statements.
 - Current standards require pension liability only if contractual contributions not paid.
- A **pension expense** different from the current expense of contributions paid.

Contributions are determined by actuarial methods, not accounting standards.

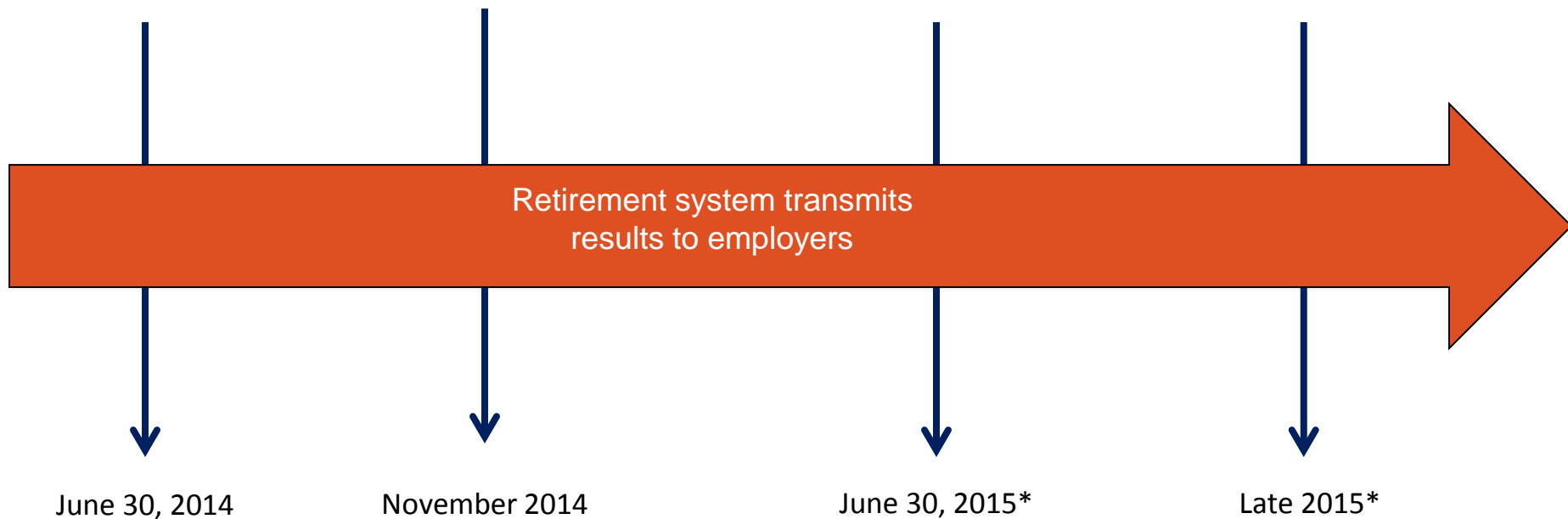
GASB 67-68 Timeline

Actuarial valuation
measurement date

Release of 6/30/14
actuarial valuation results

Employers use 6/30/14
actuarial valuation results

Employers' CAFRs with
GASB 68 is published



There will be a one-year lag in employer reporting of GASB 68 results. In their FY2015 reporting, employers will use FY2014 actuarial valuation results from IPERS.

*Assumes a June 30 fiscal year-end.

IPERS' Benefit Package



- More moderate than many
- Reform started 4 years ago
- Contribution rates tied to actuarial rate
 - Investment Board adopted contribution rate funding policy
- Benefit reductions taken by current, active members
 - No separate tier for new hires

Key Comparisons



Terry Branstad shared a link.

October 17

facebook.



Sound fiscal management! Iowa has the 2nd-best debt/pension rating in the country according to Barron's:
<http://blogs.desmoinesregister.com/dmr/index.php/2013/10/16/report-iowas-state-debt-ranks-second-best-nationally-nebraska-is-no-1/article>



Report: Iowa's state debt ranks 2nd-best nationally; Nebraska is No. 1
blogs.desmoinesregister.com

Barron's financial weekly says Iowa stacks up better than 48 other states in the management of its tax-supported debt and

*Iowa is
second-best in
the management
of its tax-
supported debt
and unfunded
public employee
pensions.*

Sources: online.barrons.com; facebook.com/TerryBranstad; blogs.desmoinesregister.com
October 17, 2013

Investment Return Assumptions

“Over the past 25 years, a period that has included three economic recessions and four years when median public pension fund investment returns were negative (including the 2008 decline), public pension funds have exceeded their assumed rates of investment return.”

IPERS	7.50 %
Public Fund Average*	7.75%
IPERS' 30-year**	9.57%

Keith Brainard, Research Director

Alex Brown, Research Associate

NASRA ISSUE BRIEF:

Public Pension Plan Investment Return Assumptions

October 2013

National Association of State Retirement Administrators

www.nasra.org

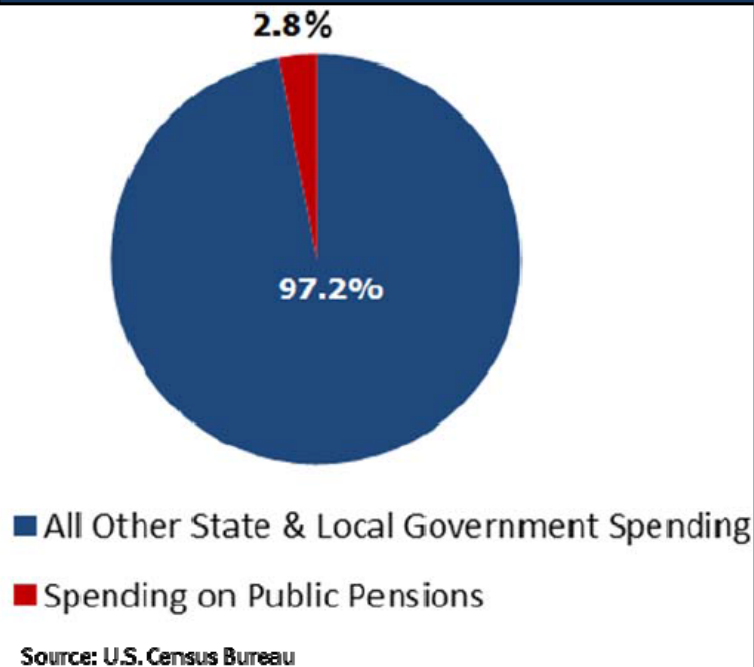
*The survey is sponsored by the [National Association of State Retirement Administrators](http://www.nasra.org) and the [National Council on Teacher Retirement](http://www.nasra.org)
www.publicfundsurvey.org

**Annualized actual return as of June 30, 2013

Three Percent Nationwide



Figure 1: State and local spending on public pensions as percentage of total government spending, 2010



“Based on the most recent information provided by the U.S. Census Bureau, approximately three percent of all state and local government spending is used to fund pension benefits for employees of state and local government.”

Keith Brainard, Research Director

Alex Brown, Research Associate

NASRA ISSUE BRIEF:

State and Local Government Spending on Public Employee Retirement Systems

May 2013

National Association of State Retirement Administrators

www.nasra.org

IOWA

1.73

Our Mission



Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

Contact Us



The purpose of this presentation is to provide a brief overview of IPERS. For additional information, feel free to contact us or visit our website at www.ipers.org

E-mail: ceo@ipers.org

Phone: 515-281-0070

Toll-free: 800-622-3849

